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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

Federal Communications Commission
Office of the Secretary

ORIGINAL
FILE

In the Matter of

Billed Party Preference
for 0+ InterLATA Calls

CC Docket No. 92-77 ✓

REPLY COMMENTS OF
MASTERCARD INTERNATIONAL INCORPORATED
AND VISA U.S.A., INC.

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SUMMARY

True billed party preference means not only billed party choice of IXC, but also billed party choice of billing mechanism. Accordingly, consumers should be afforded uniform and nationwide access to a wide variety of alternative payment systems in a billed party preference environment. As numerous commentators recognize, commercial credit cards are a desired telecommunications payment option.

Contrary to the assertions of a few commentators, there is no real obstacle to acceptance of commercial credit cards under billed party preference. There is no technical reason to preclude or delay implementation of the commercial credit card functionality under billed party preference. Indeed, AT&T's plan to accept commercial credit cards on its network confirms that whatever technical issues may be involved in expanding 0+ payment options can be resolved without undue difficulty.

The successful introduction of commercial credit card payment options in other retail markets, the popularity of the card reader pay telephones and our own market research demonstrates the substantial consumer demand for commercial credit cards as a telecommunications billing option. Given the clear public interest in this alternative payment device, the Commission should mandate implementation

of commercial credit card acceptance during the initial phase of billed party preference.

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MasterCard International Incorporated ("MasterCard") and VISA U.S.A., Inc. ("VISA") submit these reply comments to address the concerns of a few parties about commercial credit card acceptance under billed party preference. Contrary to the views expressed by those commentators, no technical or other reason warrants the continued unequal treatment of alternative billing devices, including commercial credit cards, as payment mechanisms for 0+ calling.

DISCUSSION

I. NUMEROUS COMMENTATORS RECOGNIZE THE
BENEFITS OF COMMERCIAL CREDIT CARD
ACCEPTANCE FOR 0+ CALLS.

Numerous commentators acknowledge the benefits of commercial credit card acceptance in a billed party

preference environment.¹ In particular, the Ameritech companies "strongly support the incorporation of commercial credit card handling capabilities" into billed party preference. Ameritech Comments at 11. US Sprint concurs, noting that "there is no inherent reason why commercial credit cards cannot be compatible with billed party preference and usable in a 0+ dialing sequence" Sprint Comments at 33.

Even parties that do not generally support billed party preference view commercial credit card billing as a desirable goal for any 0+ calling regime. As the Airports Association Counsel stated, "a system which does not apply to commercial credit card calls will make the use of payphones disadvantageous for those members of the travelling public who do not wish to have (or elect not to use) a telephone company issued calling card." Comments of Airports Association Council International at 10. Although erroneously contending that one of the disadvantages of billed party preference is that it "would not support the use" of commercial credit cards,² AT&T revealed that it is

1 See Comments of The Ameritech Operating Companies at 11 ("Ameritech Comments"); Comments of Southwestern Bell Telephone Company at 21 ("Southwestern Bell Comments"); Comments of GTE at 10 ("GTE Comments"); Comments of Sprint Corporation at 33 ("Sprint Comments"); Comments of the Michigan Public Service Commission Staff at 6; Comments of the Florida Public Service Commission at 7; Comments of MessagePhone, Inc. at 32 ("MessagePhone Comments").

2 AT&T Comments at 17. AT&T believes, based on an apparently misguided reading of an ex parte filing by (Footnote 2 Continued)

reconfiguring its own network "to accept such cards from all telephones."³ Thus, like VISA and MasterCard, AT&T views credit card billing as a desirable feature for 0+ calling.⁴

II. NO PARTY HAS IDENTIFIED ANY REAL OBSTACLES TO THE IMPLEMENTATION OF THE COMMERCIAL CREDIT CARD FUNCTIONALITY UNDER BILLED PARTY PREFERENCE.

Central to the concept of billed party preference is the notion that the person paying for a long distance call should have the right to determine how that call is carried and processed. True billed party preference therefore encompasses not only billed party choice of an interexchange carrier ("IXC"), but also billed party choice of billing mechanism.⁵

(Footnote 2 Continued)

Ameritech and MCI, that under billed party preference "callers who wish to use commercial credit cards could not do so on a 0+ basis." Id. As noted above, Ameritech strongly supports commercial credit processing under billed party preference, and VISA and MasterCard do not envision any technical obstacles to the processing of commercial credit cards under billed party preference, especially in light of AT&T's commitment to process those cards on its own network. Id. at 17, n.*.

3 Id.

4 In fact, in response to our initial comments in this proceeding, AT&T recently stated that, "[w]hile we may not totally agree with the overall enthusiasm you placed on the implementation of BPP, we do agree that, if BPP is to be ordered by the Commission, it should include all present billing mechanisms, including commercial credit cards, from the outset." Letter from Steven D. Lind, AT&T, to Alice Droogan, MasterCard International (Aug. 14, 1992).

5 See, e.g., MessagePhone Comments at 31 ("The paradigm of billed party choice naturally extends beyond choice of IXCs and OSPs and should include the billed party's choice of billing mechanisms.").

Opening up the 0+ market to commercial credit cards and other payment options furthers the Commission's goal of enhancing competition in the telecommunications industry.⁶

As MessagePhone observed in its initial comments:

billed party choice of billing mechanism is consistent with the goals of the MFJ and the Commission. It promotes customer choice and competition, while not inconveniencing the caller. The technology exists so this service can be implemented at the same time as [billed party preference].

MessagePhone Comments at 32. Expanding payment mechanisms increases competition among interexchange carriers, for example, by allowing smaller operator service providers ("OSPs") who do not issue their own calling cards to affiliate with larger, well-established card issuers, such as many financial institutions. As importantly, commercial credit cards offer consumers a number of features and services that are not available with use of a telephone company calling card.⁷ Despite these obvious public

6 See Allocation of Frequencies in the Bands Above 890 Mc, 27 F.C.C. 359 (1959), recon., 29 F.C.C. 825 (1960); Microwave Communications, Inc., 18 F.C.C.2d 953 (1969); Specialized Common Carrier Services, 29 F.C.C.2d 870 (1971), aff'd sub nom., Washington Util. and Transp. Comm'n v. FCC, 513 F.2d 1142 (9th Cir.), cert. denied, 423 U.S. 836 (1975).

7 The ability to (a) consolidate telecommunications bills with purchases of other goods and services, (b) extend payment over time, (c) replace the need for cash and (d) take advantage of the full panoply of state and federal consumer protection laws are among the many benefits of commercial credit cards. Moreover, expanding billing options under billed party preference will facilitate 0+ calling by foreign travellers and domestic consumers who either do not have (or choose not to use) a telephone company calling card.

benefits, a few carriers contend that "technical obstacles and low consumer demand" justify delay or exclusion of commercial credit card acceptance under billed party preference.⁸ These concerns are unfounded.

A. Consumer Demand

MasterCard and VISA dispute the unsubstantiated claims of BellSouth and PacTel concerning consumer demand for commercial credit card payment options. First, any assessment of consumer interest under billed party preference cannot be based upon current market conditions, which virtually exclude commercial credit cards as payment devices for 0+ calls.⁹ Thus, although some indication of the desirability of commercial credit cards may be gleaned from the success of the VISAPhone and MasterPhone programs, as well as the enormous popularity of AT&T's Universal card, these indices cannot begin to replicate consumer interest in a world in which commercial credit cards may be used as quickly and conveniently as a telephone company calling card.

8 Comments of Pacific Bell and Nevada Bell at 16 ("PacTel Comments"). See also Comments of BellSouth Telecommunications, Inc. at 18.

9 As noted in our initial comments, commercial credit cards are presently accepted on a 0+ basis only on card reader pay telephones. Despite this limitation, available usage data attest to the popularity of this billing option. It is estimated that 40-45 million credit card calls are made annually.

Second, our experience in numerous other retail and service industries confirms that consumers value the ability to make purchases using a single, general purpose credit card. The success of affinity card arrangements, like the AT&T Universal card, demonstrates that consumers are actively looking for ways to lessen the number of cards they need to carry with them.¹⁰ Commercial credit card billing for 0+ calls decreases the need to carry multiple cards and thus will likely increase usage of the 0+ network by occasional users who may not opt to carry traditional calling cards. As department stores, gasoline service stations, movie theaters, public transportation fares and fast food outlets opened their doors to general purpose credit cards, for example, merchants have generally found not only that a substantial portion of all purchases are made with credit cards, but also that the volume of sales increases as consumers are afforded new and more convenient payment options.

There is no reason to believe that the thriving calling card market cannot accommodate new entrants. Indeed, we have every reason to believe that consumers will respond as favorably to the use of commercial credit cards

¹⁰ As AT&T acknowledged in a letter to Bell Atlantic, the calling cards issued by carriers "compete with each other for wallet space." Letter from R. Morgan to J. Weber (Dec. 18, 1989) appended to DA 91-1583, AT&T Communications Revisions to FCC Tariff No. 1, Bell Atlantic's Response to AT&T's Direct Case, filed February 27, 1992.

for telecommunications purchases as they have for other retail purchases. Market studies conducted by the credit card industry indicate that over forty percent of existing cardholders are likely to use their VISA or MasterCard as a 0+ payment device. Equal access for alternative billing mechanisms under billed party preference is both pro-competitive and pro-consumer. Those few detractors of commercial credit card acceptance should not be allowed to use the regulatory process to lessen competition (and preserve their market share) at the expense of the public interest.

B. Technical Feasibility

MasterCard and VISA are surprised by the claims of some carriers that commercial credit card acceptance on a 0+ basis is technically complex.¹¹ These carriers purportedly fear that incorporation of commercial credit card handling capabilities would delay implementation of billed party preference beyond the three year deployment schedule currently contemplated by most carriers.¹² There is nothing in the record to support these concerns.

11 See Ameritech Comments at 11, Southwestern Bell Comments at 21, PacTel Comments at 16, GTE Comments at 10; AT&T Comments at 17.

12 Numerous parties estimate that billed party preference will not be deployed until early 1996, assuming the Commission issues an order mandating implementation of the service by early 1993. See Ameritech Comments at 2; Southwestern Bell Comments at 17; GTE Comments at 8.

In fact, the Regional Bell Operating Companies ("RBOCs") stated nearly six years ago that

[t]he BOC data base systems will not preclude carriers from developing their own card formats or arranging to utilize bank or other charge cards. Although the BOC data base systems will employ the ten-plus-four format currently used for calling cards, there is no significant technical obstacle to using different card formats as long as they are in an industry standard format . . . [that] permits the BOCs to determine the carrier to which to send the call.¹³

VISA and MasterCard have been working closely with carriers, switch providers and equipment manufacturers over the past several years to develop the necessary software and network interfaces to ensure credit card acceptance under billed party preference. At no time have we ever been informed that the necessary network modifications to process commercial credit cards on a 0+ basis could not be implemented in a timely and cost-efficient manner. In fact, it is our understanding that Northern Telecom has indicated to the RBOCs that billed party preference and commercial credit card acceptance are technically feasible and it is willing to develop the systems should it be mandated by the Commission.

¹³ United States v. Western Elec. Co., Inc., Opposition of Ameritech, Bell Atlantic, BellSouth, NYNEX, Pacific Telesis Group, Southwestern Bell and U.S. West to AT&T's Motion for Declaratory Ruling on Operator Call Handling at 33, Civ. No. 82-0192 (filed Sept. 30, 1986) (emphasis added).

Moreover, commercial credit cards follow the same ISO/ANSI industry standard format that is used by the telecommunications industry for its "891" calling card. Significantly, no commentator has called for delayed implementation of ISO/ANSI-formatted telecommunications cards.¹⁴ Finally, the fact that AT&T plans to process commercial credit cards on a 0+ basis on its network confirms that the appropriate technology exists to implement the credit card functionality.¹⁵

In short, the credit card industry has had considerable experience working with other industries to develop compatible network interfaces. Whatever software or hardware modifications that may be necessary to ensure commercial credit card acceptance can be developed and implemented during the initial phase of billed party preference.¹⁶ MasterCard and VISA are committed to working closely with the telecommunications industry to ensure that

14 See, e.g., Ex Parte Presentation from Ameritech and MCI to Commissioners' Legal Assistants and Common Carrier Bureau Chief and Staff (Jan. 28, 1992). Acceptance of standard ISO/ANSI-formatted commercial credit cards under billed party preference should not be delayed in the event that acceptance of non ISO/ANSI-formatted cards raises novel technical issues.

15 See AT&T Comments at 17, n*.

16 Some commentators erroneously equate acceptance of commercial credit cards with acceptance of foreign carrier-issued calling cards. Because of the unique issues raised by accepting foreign calling cards, the Commission should treat commercial credit cards separately from those calling cards.

consumers have the full benefit of multiple payment and carrier options in the new 0+ calling environment.¹⁷

III. THE COMMISSION SHOULD MANDATE BILLED PARTY CHOICE OF BILLING MECHANISMS.

As Ameritech correctly observes, "commercial credit card issuers . . . desire to retain the goodwill of their card holders by making [the benefits of] billed party preference available to them."¹⁸ To accomplish this objective, the credit card industry must depend upon the local exchange carriers ("LECs") to configure the public switched network in a manner that will facilitate the equal treatment of commercial credit cards.¹⁹ It is increasingly apparent, however, that some LECs may not voluntarily make these network modifications, since doing so may compel them to relinquish their competitive advantage in the calling card market.

Staged phase-in of commercial credit card functionality under billed party preference will frustrate

17 In this regard, it is important to note that commercial credit card companies are themselves service providers and enter into particular industries only if and when one or more industry participants decide to accept commercial credit cards as payment mechanisms for their goods or services.

18 Ameritech Comments at 12.

19 Local exchange carriers are not only the gatekeepers to 0+ calling in a billed party preference environment, they are also competitors in the provision of 0+ billing services.

the Commission's objectives by fostering greater customer confusion and necessitating inefficient, piecemeal modifications of the public switched network. Most importantly, the efforts of some LECs to forestall credit card implementation and thus restrict competition deprive telephone consumers of a valued payment option. In the absence of any technical or other impediment warranting continued unequal treatment of commercial credit cards, VISA and MasterCard urge the Commission to mandate billed party access to alternate billing mechanisms as part of the initial phase of billed party preference.

Finally, even if the Commission does not mandate billed party preference at this time, it should nonetheless reaffirm its commitment to open up the telecommunications billing marketplace and mandate the removal of any network barriers to acceptance of alternative payment devices, such as commercial credit cards. The public interest demands that telephone consumers be afforded the diverse array of billing options that are currently available in numerous other retail markets throughout the United States.

CONCLUSION

Just as billed party preference focuses competition among interexchange carriers on the consumer, billed party choice of payment mechanisms spurs competition toward greater and more cost effective payment options for all

users. VISA and MasterCard are committed to working with the telecommunications industry to ensure that credit card acceptance can be implemented in the initial phase of billed party preference. Absent a clear mandate from the Commission, however, a significant number of LECs will have every incentive to implement billed party preference technology so as to protect their advantages as competitors in the provision of 0+ billing services.

For the foregoing reasons, MasterCard and VISA respectfully request that the Commission mandate implementation of billed party preference in a manner that will afford consumers equal access to alternative billing mechanisms, including commercial credit cards.

Respectfully submitted,

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August 27, 1992

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